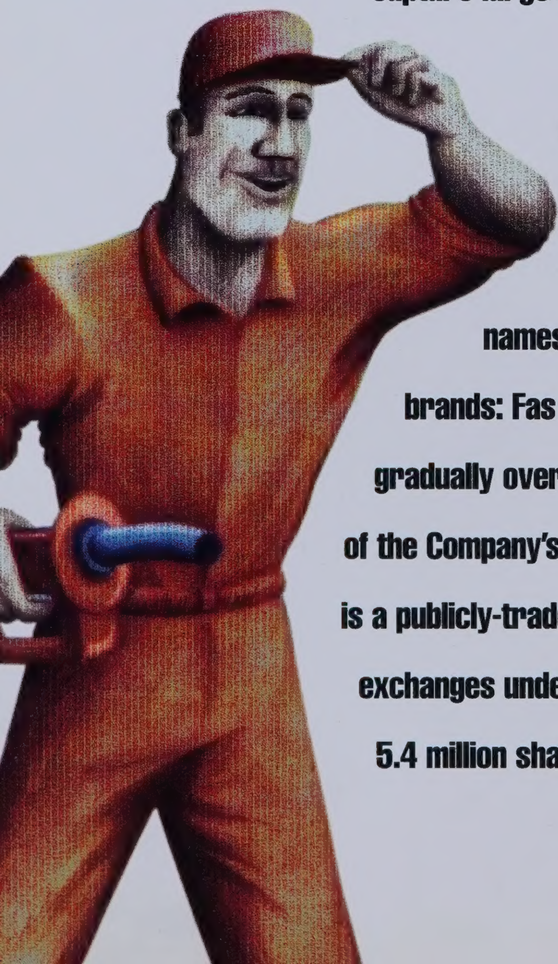
Parkland Industries Ltd.

1998

Annual Report

Parkland Industries Ltd. is a gasoline marketing and refining company headquartered in Red Deer, Alberta. The Company sells refined products through a network of 329 service stations throughout western Canada, the Yukon and the Northwest Territories and owns and operates a refinery at Bowden, Alberta. Parkland also owns and operates gasoline and propane trucking operations which support the primary marketing business.

Parkland's service stations are strategically located primarily in non-urban communities where retail prices tend to be strong and stable, real estate is less expensive and operating costs are more manageable than in major urban areas. This approach has positioned the Company to benefit from industry rationalization, allowing Parkland to capture large increases in market share in its core areas.



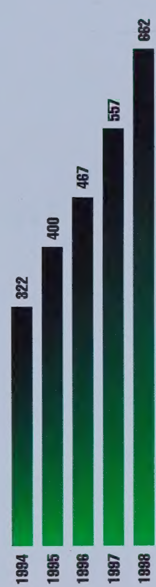
In 1998 Parkland initiated a strategic repositioning of its gasoline marketing operations. Company service stations now marketing under five brand names are being consolidated under the most recognizable brands: Fas Gas and Payless. The process will be completed gradually over several years and is intended to improve the visibility of the Company's operations and enhance brand recognition. Parkland is a publicly-traded company listed on the Toronto and Alberta stock exchanges under the trading symbol PKI. The Company has 5.4 million shares outstanding.

Highlights

During fiscal 1998 Parkland posted record sales of 662 million litres of refined products, an increase of 19 percent over the previous year. Sales revenue increased along with volumes, reaching an all-time high of $255 million. These significant improvements reflect the sixth consecutive year of greater sales performance for the Company despite very competitive industry conditions.

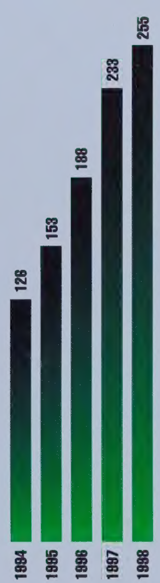
Parkland continued on a steady course of growth through internal expansion in fiscal 1998. Efforts were focused on maximizing the impact of significant acquisitions completed in the previous year by improving sales at every station to achieve higher volumes and greater profitability. The double-digit increase in sales and significant improvement in revenue in 1998 were achieved despite a decline in station count compared to the previous year.

($thousands, except per share amounts)	**1998**	**1997**	**% increase**
Sales volumes (litres)	**662,000**	*557,000*	*19*
Sales revenue	**255,374**	*233,280*	*9*
Gross margin	**45,064**	*35,540*	*27*
Cash flow from operations	**9,709**	*4,261*	*128*
Per share ($)	**1.78**	*0.78*	*128*
Net earnings from operations	**3,399**	*(483)*	*n/a*
Per share ($)	**0.62**	*(0.09)*	*n/a*



Sales Volumes

(millions of litres)



Net Sales

($millions)

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Challenging

President's Message

To Our Shareholders

I am pleased to report that fiscal 1998 marked a return to profitability for Parkland as we posted earnings from operations of $3.4 million. The improvement was due to our success in increasing sales volumes along with rising margins in both wholesale and retail markets.

Again this year we experienced double-digit percentage growth in sales volumes of refined products, achieving a record level of 662 million litres. Sales revenue reached an all-time high of $255 million as we enjoyed a strong and stable retail pricing environment. These impressive results reflect an improvement in per station sales volumes and the growth of our business in the Yukon, our newest area of operation. This revenue performance was particularly gratifying recognizing that 13 stations in non-core areas were divested during the year and the average prices of crude oil and retail gasoline were substantially lower than in the previous year. We continued to expand our presence in strategic markets and now sell refined products at 329 service stations throughout Canada's four western provinces, the Yukon and the Northwest Territories.

During fiscal 1998 we achieved record levels of sales, reflecting the strength of our marketing strategy and overall improvements in the gasoline marketing environment.

Marketing

Our strategy is to operate under a low cost structure to reduce our exposure to volatility in wholesale and retail pricing. This approach allows the Company to provide value to our customers in a business where competition can be intense and frequent price fluctuations are common.

Parkland's 1998 results reflect the strength and soundness of our strategic market positioning primarily in non-urban centres. For the most part, our service stations are positioned in small to medium sized communities where operating costs are lower than in major cities. With a lower fixed cost structure, we have proven our ability to operate profitably where others are unwilling or unable to compete. In 1998 we witnessed the continued process of major gasoline retailers abandoning their non-urban operations in search of higher volume urban locations. This industry rationalization gave us the opportunity to capture higher sales volumes in many of our focus areas.

conventional wisdom

We market refined products through three distinct sales categories: retail, wholesale and commercial contracts. The retail and wholesale categories are positioned under specific brand names, each with a unique level of service and distinct marketing program. For example, retail sales are offered under the Fas Gas banner. The emphasis at retail stations is on "full service" to customers.

In contrast, wholesale products are offered under the Payless brand. These stations are generally independently owned and operated. Parkland supplies fuel through long-term contracts and provides signage, brand name usage, credit card facilities and other support services. The operators run the business entirely independently from Parkland in all other ways. In the Yukon and the Northwest Territories our strategy is to pursue sales of diesel fuel under large-volume, long-term contracts for mining, heating oil and electrical generation. This approach has allowed us the flexibility to take advantage of the unique circumstances each market offers and capture the highest possible sales volumes.

Prudent sourcing of long-term supply agreements has assured us an adequate supply of refined products at competitive cost for many years into the future.

The one exception to our brand marketing strategy is our ongoing development work on the Round-the-Clock pilot project in Red Deer. We are developing a technology to allow this station to operate 24 hours a day, without any attendants on site. We initially developed this proprietary system in 1995 to accept credit cards only. The unique and distinguishing feature of our new technology, once fully developed, will be its ability to accept credit cards, debit cards and cash, including making change, 24 hours a day. We expect it will be fully functioning with cash and debit cards in the coming year, giving us a competitive edge over other existing unmanned service station technologies.

Refining

Throughout the first 10 months of fiscal 1998 we continued to experience very tight refining margins as the cost of natural gas condensate feedstock, used exclusively at our refinery, remained well above the cost of crude oil. This differential placed Parkland at a disadvantage to crude oil refiners. We consequently reduced refinery production for most of the winter months, running at minimum levels, and sourced our marketing demand from long-term supply agreements with other refiners. However, toward the end of the fiscal year we saw condensate return to an acceptable pricing level, on par with the cost of crude oil, due to the lower market demand for its use as a diluent for heavy crude oil. Overall, however, refining margins in 1998 remained well below our acceptable level. Environmental and safety issues are always a primary focus and we were able to continue our North American record with 35 years of operations without a lost time accident.

Our strength

Transportation

Parkland operates 32 highway tractor-trailer units providing transportation service to our marketing and refining operations and third party hauling. Control of our transportation facilities allows us to maintain quality service and on-time deliveries while minimizing our net delivered cost of product.

Financial Results

Higher sales volumes and revenue in 1998, along with improved gross margins, translated into significant increases in all other key financial indicators. We recorded after-tax earnings from operations of $3.4 million compared to a loss of $0.5 million in the previous year. Cash flow from operations more than doubled over 1997 to reach $9.7 million. On a per share basis, this cash flow translated into $1.78 compared to $0.78 in 1997. We are very pleased with these results and anticipate our low cost structure, along with the strong marketing environment we are currently experiencing, will allow us to continue to deliver improved results.

Our business is very sensitive to changes in retail fuel margins. For Parkland, a change in margins of one cent per litre over a one year period affects our after-tax earnings by $3.4 million or $0.73 per share. While the overall average retail (excluding wholesale) price of fuels in 1998 decreased from the previous year by 1.6 cents per litre, the wholesale cost of gasoline was also lower, resulting in retail margins averaging 1.3 cents per litre higher than in 1997. We are now experiencing a period of stable retail prices which, if sustained, bodes well for Parkland's profitability in the coming year.

Outlook

Looking ahead to fiscal 1999, we will begin the process of rebranding all of our service stations under two banners. We currently operate Fas Gas, Bi-Lo, Payless and Thrifty brands. Our plan is to preserve the retail and wholesale types of sales as distinct product categories while reducing the number of brands in order to enhance our presence in our core markets. All our retail stations, which we typically own or control under long-term leases and operate on a commissioned consignment basis, will be positioned as Fas Gas stations. At the same time, our wholesale operations, which are primarily stations owned by independent operators who buy refined products from us in bulk, will be consolidated under the Payless banner. This repositioning will increase our visibility in our core areas of operation and build on the goodwill and brand loyalty associated with our two highest profile banners.

Our current style of retail station operation includes a commissioned consignment agreement with our operators to market our transportation fuels. Parkland also enters into a store lease agreement with the operators who then conduct their own in-store marketing business. Over the next year we will pursue new opportunities to realize greater profitability from our existing assets and enhance our offering to our customers. This will include evaluating the most advantageous methods of operating the existing convenience stores on our sites.

Throughout most of the past year we witnessed significant industry rationalization and there are now fewer service stations competing for business in our core areas. As a result, our average sales per station grew substantially in 1998. However, we expect the pace of industry consolidation to decline in the coming year. That said, our expanded service station network and strong presence in non-urban areas have positioned us to continue to capture improved sales volumes. We expect to add new stations throughout our market area

Jack C. Donald
President and
Chief Executive Officer

is service

with a particular emphasis in the north and Manitoba. We expect margins to continue to be strong and stable in 1999 and beyond. Parkland has developed a very strong balance sheet with a debt to equity ratio of 0.21 to 1.00 and has the financial capacity, along with continuing cash flow, to carry on a growth-oriented capital expenditure program, both with additional stations and enhancement of existing sites.

Our success in 1998 has given Parkland a stronger foothold in our key marketing areas and positions us to continue to increase sales in the coming year.

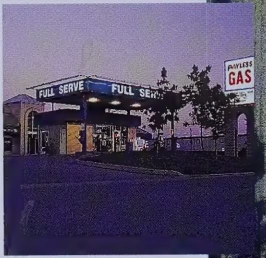
In the 11 years we have owned the refinery, natural gas condensate has almost always tracked the price of benchmark crude oil. We are currently enjoying a period of relatively low condensate prices due to reduced demand from the heavy oil industry, but do not expect this to continue indefinitely. For this reason, and in sensitivity to the risk of tightening refining margins, we are investigating alternatives for the refinery in order to improve its profitability and enhance its value to Parkland's future operations.

Parkland's success during 1998 was a direct result of the contributions of our skilled and dedicated team of people. I thank each of them for their tremendous efforts and achievements. I also thank our dedicated Board for their wisdom and guidance, along with our investors for their patience and loyalty over nearly a decade of industry restructuring. Together, we can look forward to sharing another record-breaking year at Parkland Industries.

On behalf of the Board of Directors,

Jack C. Donald
President and Chief Executive Officer
September 8, 1998

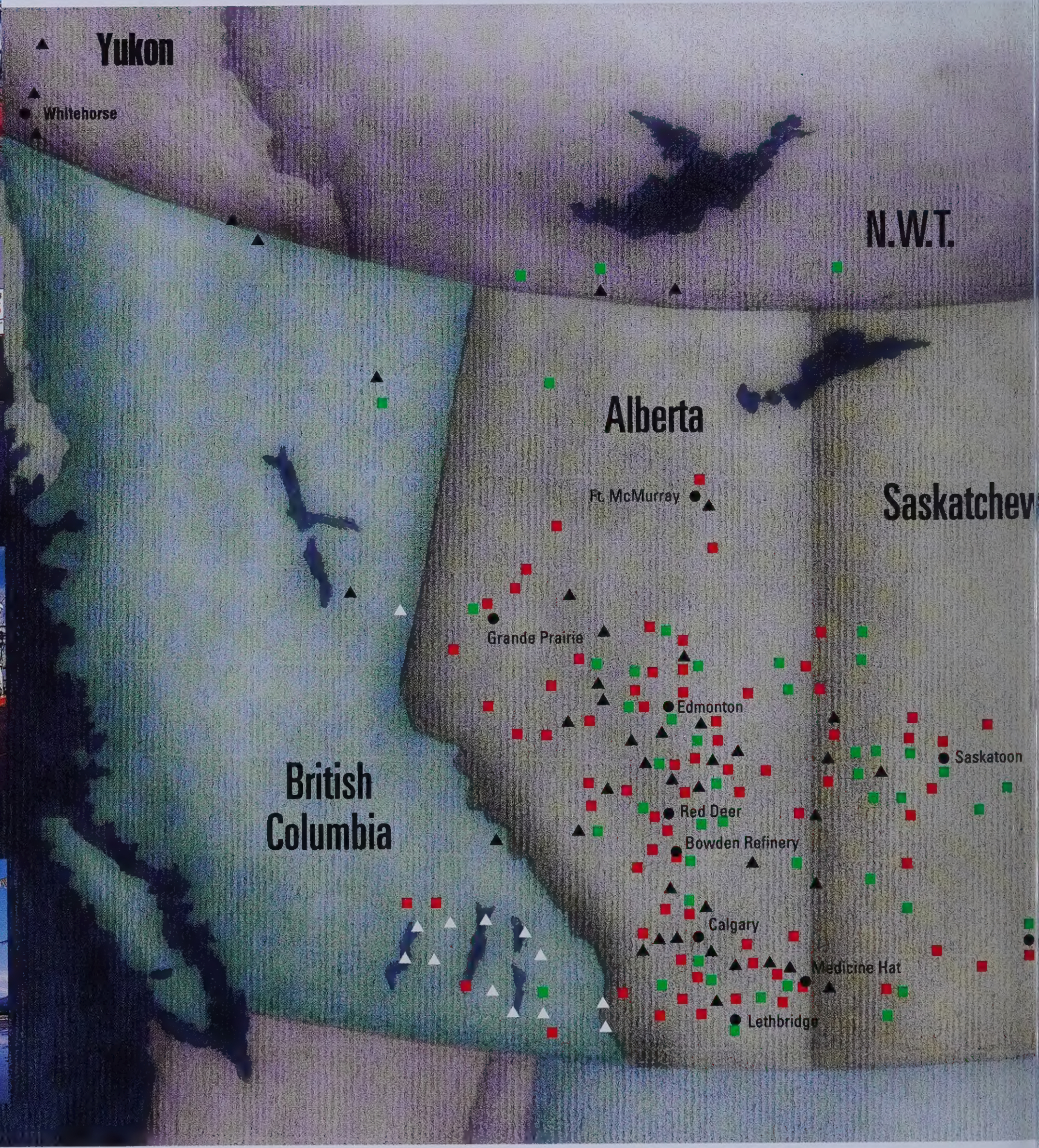
■ Fas Gas



▲ Payless

■ Bi-Lo

△ Thrifty



In 1998 Parkland initiated a strategic repositioning of its branded gasoline marketing operations. Company service stations now marketing under four brand names are being consolidated under the most recognizable brands: Fas Gas and Payless. The process will be completed gradually over several years and is intended to improve the visibility of the Company's operations and enhance brand recognition.

Performance for Our Shareholders

Management's Discussion and Analysis

The following discussion and analysis of Parkland's results of operations and financial conditions should be read in conjunction with the consolidated financial statements reported on pages 13 through 22 of this report. Dollar amounts in the tables are presented in thousands, except per share data.

Results of Operations

The core of Parkland's business and the main source of the Company's revenue is marketing of motor fuels. Refined products sold through the Company's network of service stations are sourced from Parkland's refinery at Bowden, Alberta and through long-term contracts with other refiners. Product sales include gasoline, diesel and propane.

At the end of fiscal 1998 Parkland's station count totalled 329 compared to 342 at the end of the previous year. Of this total, 199 are retail and 130 are wholesale stations. Parkland owns 91 of the retail stations and controls 108 under long-term leases. The Company also owns four additional commercial properties which are non-gasoline related, including a trucking yard and several convenience stores. To strengthen its focus in non-urban areas, the Company sold 13 stations in 1998 which were not located in its core areas of operation.

During 1998 retail prices for gasoline stabilized and the Company continued to experience the seasonal pattern of changes in retail gross margins which has been evident in recent years. In the Company's second and third quarters, which represented the winter months, the major refiners maximized production to meet diesel and heating oil demand. Excess gasoline was produced at a time of seasonally low consumer demand. The result was excess inventory, which resulted in wholesale or "rack-back" margins (the spread between the cost of crude oil and the wholesale price of gasoline) declining by an average of two cents per litre from normal summer season levels. In spite of this seasonal weakness, the annual average rack-back margin increased over the prior year. Retail or "rack-forward" margins (the spread between the wholesale price of gasoline and retail pump prices) remained very stable throughout the year, allowing Parkland to record improved gross margins over the previous year.

Beginning in December 1996 the price of condensate feedstock moved to a premium over light sweet crude oil, reaching a maximum of 5.5 cents per litre by December 1997. By fiscal year end in June 1998, the premium had disappeared and the resulting 1998 average premium was 2.6 cents per litre. The Company responded to this cost disadvantage by cutting throughput at the refinery during the second and third quarters and purchasing additional product under long-term supply agreements. As a result, the refinery produced

Gross Margin

($millions)

only 39 percent of the Company's sales requirements during fiscal 1998. The condensate cost differential caused the Company to absorb $7.2 million of excess raw material costs for the year. The Company expects the price of condensate to remain near par with crude oil at least until the production of heavy crude oil in western Canada, which uses condensate as a diluent, recovers significantly from its current poor economics and low production levels.

The Company continued to make significant gains in gasoline volumes sold, both at retail and wholesale levels. This was achieved by year-over-year gains at existing stations as well as through significant new supply contracts in its Yukon operations.

Parkland remains committed to maintaining full compliance with all environmental legislation. The Company incurred costs of $516,688 in 1998 related to environmental compliance issues. There were no legislative changes requiring major refinery upgrades during the year. The Company expects that expenditures for station remediation in fiscal 1999 will be reduced since more than half of the 1998 expenditure total related to a single unusual site. The refinery will require a $1.5 million upgrade to comply with new government regulations for benzene in gasoline. These regulations are expected to be effective January 1, 2000.

Consolidated Financial Results

($thousands, except per share amounts)	**1998**	**1997**
Sales revenue	***255,374***	*233,280*
Earnings from operations after tax	***3,399***	*(483)*
Per share	***0.62***	*(0.09)*
Gain on investment transactions	***155***	*1,263*
Per share	***0.03***	*0.23*
Total earnings	***3,554***	*780*
Per share	***0.65***	*0.14*
Cash flow from operations	***9,709***	*4,261*
Per share	***1.78***	*0.78*

Net sales increased by $22 million to $255 million in 1998 as a result of a 19 percent rise in sales volumes over the previous year, in spite of lower "per litre" pump prices. Cash generated from operations was $9.7 million compared to $4.3 million in the previous year. Non-cash working capital decreased $2.1 million primarily due to lower fuel inventories.

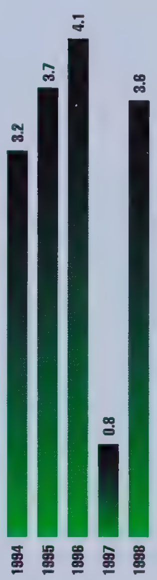
Cost of sales increased in 1998 to $210 million from $198 million in 1997. This six percent increase resulted from the combination of higher sales volumes and lower average product costs. The annual average gross margin for all refined products increased by $0.005 per litre in 1998.

Selling, general and administrative expenses, which include service station sales commissions and station occupancy costs, increased to $32.0 million in 1998 from $28.7 million the year before. This 11 percent increase was a direct result of the 19 percent increase in sales volumes which raised variable expenses. Fixed expenses remained virtually unchanged from the previous year. Included in the 1998 expenses is a provision of $604,000 for uncollected accounts related to the closure of the Anvil Range mine in the Yukon. The account is fully reserved although the Company holds lien security which should ultimately lead to some recovery.

During the year Parkland sold 50,000 shares of Crestar Energy Inc., retaining a balance of 372,889 shares at year end. Proceeds from the sale were $1.4 million and the gain recorded was $288,500. The proceeds were used to pay down debt incurred in the course of acquisitions during the prior year.

Long-term debt was reduced by $8.4 million to total $11.8 million at the end of fiscal 1998. During the year a group of 13 stations were sold with proceeds of $3.0 million used to pay down long-term debt. One of the loans carried over from the prior year related to future goodwill payments and included a contingent element. The estimated total of future payments on this loan was revised downward by $246,000. At the end of June 1998 Parkland had unused lines of short-term credit of $2.5 million and long-term credit of $7.2 million.

Parkland continued its dividend program with regular semi-annual dividends of $0.05 per share paid on July 31, 1997 and January 31, 1998.



Net Earnings
($millions)

Capital Expenditures

($millions)	**1998**	**1997**
Service stations and equipment	**5.8**	9.6
Transportation equipment	**1.4**	1.1
Refinery equipment	**0.8**	1.1
Other	**0.1**	0.9
Total	**8.1**	12.7

Capital expenditures in 1998 totalled $8.1 million compared to $12.7 in the previous year. In fiscal 1997 the Company purchased the prairie operations of Super Save Gas and Propane and the Yukon operations of Northern Petroleum. These acquisitions cost $6.9 million in total, excluding amounts paid for goodwill.

Summary of Statement of Changes in Financial Position

($thousands)	**1998**	**1997**
Operating Activities		
Cash flow from operations	**9,709**	4,261
Change in working capital	**2,052**	(2,135)
Investing activities	**(309)**	(3,897)
Financing activities and dividends	**(8,927)**	(1,766)
Increase (decrease) in cash	**2,525**	(3,537)

Key Financial Ratios

	1998	**1997**
Current ratio	**0.83**	0.72
Debt to equity ratio	**0.21**	0.30
Interest coverage - earnings from operations	**6.81**	0.55
Interest coverage - cash flow	**13.80**	4.90
Asset coverage	**6.76**	4.93

Two Year Quarterly Earnings Analysis

($thousands)		Continuing Operations	Gain on Investments	Total
1998	First quarter	2,013	155	2,168
	Second quarter	(340)	0	(340)
	Third quarter	171	0	171
	Fourth quarter	1,555	0	1,555
	Total	3,399	155	3,554
1997	First quarter	410	0	410
	Second quarter	(1,495)	1,263	(232)
	Third quarter	(457)	0	(457)
	Fourth quarter	1,059	0	1,059
	Total	(483)	1,263	780

Business Risks and Prospects

Retail Pricing

Retail prices for motor fuels are subject to intense competition. There is no foreseeable shortage of saleable motor fuels within the Company's marketing area and these products are available from a wide variety of sources. This can result in very low retail gross margins in some locations from time to time. The Company is continuing its strategy of expanding its business in non-urban areas where retail pricing is generally stronger and more stable.

Feedstock

Parkland processes natural gas condensate at its Bowden refinery. Refining efficiency depends on the quality of its feedstock. Although 90 percent of the refinery's feedstock is obtained from a single pipeline stream, the Company is continually searching the market for high quality condensate which can be delivered to the refinery using the Company's trucks as they return from fuel deliveries.

During the year the Company intervened at regulatory hearings to prevent an oil and gas producer from shipping unacceptable material via the condensate pipeline. This intervention failed and the Company is negotiating with the pipeline operators to provide an alternative solution. The problem may be solved with the installation of additional handling facilities at an estimated cost of $1.0 million.

The condensate market is undergoing constant change as its demand for use as a diluent for heavy oil changes. In the nine months prior to this report, demand has declined, resulting in a decrease in price. However, there is no assurance that this trend will continue. The Company has used its position as a stable, long-term, strategically located purchaser to obtain supply on acceptable terms.

Operations

The potential for significant mechanical failure causing production interruptions at the Company's refinery represents an operating risk. The Company currently purchases approximately 61 percent of its requirements from other refiners and could expand these arrangements. The Company employs an extensive preventive maintenance program and enjoys the benefits of an experienced, well-trained operating staff.

Environmental

The operations of service stations, refinery facilities and petroleum transport trucks carry an element of environmental risk. To prevent environmental incidents from occurring, the Company has extensive environmental procedures and monitoring programs in place at all of its facilities. To mitigate the impact of a major accident, Parkland has emergency response programs in place and offers its employees extensive training in operational responsibilities. In recent years the federal government has altered specifications for transportation fuels, resulting in significant process and cost changes. This trend will continue as regulators respond to emerging health and environmental issues and political pressures. The Company continually evaluates existing and emerging issues and believes it has the resources to economically meet all reasonably anticipated changes. A significant issue currently facing the refining industry is the proposed reduction of sulphur content in gasoline. Parkland's existing sulphur content is less than the expected revised limit and no change will be needed in equipment or processes. The Bowden refinery has a safety record among the best in the industry, with 35 years of operation without a lost-time accident.

Operations Earnings Sensitivity

A one cent per litre change in annual average gross margin results in a change in after-tax earnings of $0.73 per share.

Year 2000 Compliance

Over the past two years Parkland has upgraded all three of its core computer systems to meet Year 2000 compliance requirements. These include the Company's financial accounting, sales accounting and point-of-sale data capture systems. These systems, which represent more than 90 percent of the Company's data capture and processing, are expected to be completely compliant with final roll-out of the point-of-sale system in November 1998.

Work is underway to upgrade or replace all additional computer systems throughout the Company. These include personal computer network sub-systems, which should be completed by mid-1999 at a cost of less than $100,000. In addition, all operating and scheduling systems at the Company's refinery are expected to be upgraded by mid-1999 at an estimated cost of less than $100,000. All major software and hardware suppliers have been contacted and have certified compliance with Year 2000 requirements. Some of the smaller programs will be modified in-house. Parkland is treating the Year 2000 project as an on-going matter and is devoting the resources to ensure the Company's preparedness.

Auditors' Report

To the Shareholders of Parkland Industries Ltd.

We have audited the consolidated balance sheets of Parkland Industries Ltd. as at June 30, 1998 and 1997 and the consolidated statements of earnings and retained earnings, and changes in cash position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 1998 and 1997 and the results of its operations and the changes in its cash position for the years then ended in accordance with generally accepted accounting principles.

Heywood Holmes & Partners

Heywood Holmes & Partners
Chartered Accountants
Red Deer, Alberta
September 8, 1998

Management's Responsibility for Financial Statements

The accompanying financial statements of Parkland Industries Ltd. have been prepared by management in accordance with generally accepted accounting principles.

Parkland's accounting procedures and related systems of internal control are designed to provide reasonable assurance that its assets are safeguarded and its financial records are reliable. In recognizing that the Company is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these financial statements have been prepared accordingly and within reasonable limits of materiality. Further, management is satisfied that the financial information throughout the balance of this annual report is consistent with the information presented in the financial statements.

Heywood Holmes & Partners have been appointed by the shareholders of Parkland to serve as the Company's external auditors. They have examined the financial statements of the Company for the years ended June 30, 1998 and 1997.

The Audit Committee has reviewed these statements with management and the auditors, and has reported to the Board of Directors. The Board has approved the financial statements of Parkland which are contained in this annual report.

Kelly Collier

John G. Schroeder
Vice President, Finance
Red Deer, Alberta
September 8, 1998

Kelly G. Collier
Controller

Consolidated Balance Sheets

JUNE 30 (THOUSANDS OF DOLLARS)	1998	1997
Assets		
Current assets		
Accounts receivable	$ 10,789	$ 10,050
Inventories	8,797	11,962
Prepaid expenses	1,085	1,529
	20,671	23,541
Investment in listed securities (note 2)	6,823	7,730
Other	1,050	1,101
Fixed assets (note 3)	63,293	66,965
Goodwill (note 4)	3,705	4,891
Deferred finance charges	19	24
	$ 95,561	$ 104,252
Liabilities		
Current liabilities		
Bank indebtedness (note 5)	$ 4,049	$ 6,574
Accounts payable	19,247	19,729
Income taxes payable	252	529
Long-term debt, current portion (note 6)	1,351	5,695
	24,899	32,527
Long-term debt (note 6)	10,453	14,555
Site restoration accrual	498	341
Deferred income taxes	8,821	9,012
Total liabilities	44,671	56,435
Shareholders' Equity		
Capital stock (note 7)	17,017	16,955
Retained earnings	33,873	30,862
	50,890	47,817
	$ 95,561	$ 104,252

On behalf of the Board:

Director

Director

Consolidated Statements of Earnings and Retained Earnings

YEAR ENDED JUNE 30 (THOUSANDS OF DOLLARS)	1998	1997
Net sales and operating revenues	$255,374	$ 233,280
Cost of sales and operating expenses	210,310	197,740
Gross margin	45,064	35,540
Expenses		
Marketing, general and administrative	31,977	28,689
Interest on long-term debt	948	1,397
Amortization	6,635	6,083
	39,560	36,169
Earnings (loss) before unusual items and income taxes	5,504	(629)
Gain on sale of listed securities	289	2,718
Earnings before income taxes	5,793	2,089
Income taxes (note 8)		
Current	2,620	2,784
Deferred	(381)	(1,475)
	2,239	1,309
Net earnings	3,554	780
Retained earnings, beginning of year	30,862	30,631
	34,416	31,411
Dividends paid	(543)	(549)
Retained earnings, end of year	$ 33,873	$ 30,862

Per share information (note 1)

Consolidated Statements of Changes in Cash Position

YEAR ENDED JUNE 30 (THOUSANDS OF DOLLARS)	1998	1997
Cash Provided By (Used For)		
Operations		
Net earnings	$ 3,554	$ 780
Add (deduct) items not involving operating cash:		
Amortization	6,635	6,083
Deferred income taxes	(191)	116
Gain on sale of listed securities	(289)	(2,718)
Cash from operations	9,709	4,261
Changes in non-cash working capital	2,052	(2,135)
Cash provided by operating activities	11,761	2,126
Financing		
Proceeds of share issue	92	–
Repurchase of shares	(30)	(811)
Reduction of term debt (note 4)	(246)	(400)
Proceeds from long-term debt	666	15,566
Long-term debt payments	(8,866)	(15,572)
Dividend payment	(543)	(549)
Cash (used for) financing activities	(8,927)	(1,766)
Investments		
Reduction in goodwill (note 4)	246	400
Proceeds on sale of goodwill	475	–
Purchase of goodwill	(233)	(1,981)
Site restoration accrual	216	59
Purchase of fixed assets	(8,085)	(12,693)
Proceeds on sale of fixed assets	5,825	828
Investment in other assets	51	(552)
Proceeds on sale of listed securities	1,385	11,634
Flow through of income tax recovery on sale of listed securities	(189)	(1,592)
Cash (used for) investment activities	(309)	(3,897)
Increase (decrease) during the year	2,525	(3,537)
Cash (deficit), beginning of year	(6,574)	(3,037)
Cash (deficit), end of year	$ (4,049)	$ (6,574)

Notes To Consolidated Financial Statements

June 30, 1998

(dollar amounts presented in tables are in thousands, except per share information)

Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of all wholly owned subsidiaries. All significant inter-company accounts and transactions are eliminated. The excess of the consideration paid for the shares of subsidiaries over the underlying net book values at the dates of acquisition is attributed to the related assets acquired and is amortized over the life of these assets.

Inventories

The Company uses the last-in, first-out (LIFO) method of determining the cost of product inventory.

Amortization

Amortization is provided for on a straight line basis over the estimated useful lives of assets at the following annual rates:

Land improvements	– 4%
Buildings	– 5%
Refining equipment	– 5%
Equipment	– 10%
Automotive equipment	– 15%
Goodwill	– 10%

Investments

Parkland's investments in companies in which it does not have significant influence are accounted for under the cost method.

Income Taxes

The Company follows the deferral method of tax allocation accounting, under which the income tax provision is based on the income reported in the accounts. Under this method, the Company makes full provision for income taxes deferred principally as a result of claiming capital cost allowance in excess of amortization provided in the accounts.

Long-Term Debt

Capital lease obligations which relate to transactions which are similar in nature to a purchase are capitalized and included in long-term debt.

Site Restoration

Site restoration costs are based on engineering estimates taking into account alternative procedures consistent with legal requirements, industry practices and available technology.

Estimated site restoration costs of acquired sites are recorded at date of acquisition and actual costs are charged to the accumulated provision as incurred. Site restoration costs of existing sites are charged to operations in the year incurred.

Deferred Finance Charges

Deferred finance charges are amortized on a straight line basis over ten years and recorded at cost less accumulated amortization.

Earnings Per Share

Basic earnings per share is calculated on the weighted average number of common shares outstanding for the year which amount to 5,439,635 (1997 - 5,473,725).

Segmented Information

The Company operations are predominantly in the petroleum refining and marketing industry. The Company derives its revenues from marketing its products in western Canada.

1. Earnings Analysis and Earnings Per Share

	Operations	Unusual Items	Total Operations
1998			
Earnings before tax	**$ 5,504**	**$ 289**	**$ 5,793**
Income taxes (recovery)			
Current	**2,297**	**323**	**2,620**
Deferred	**(192)**	**(189)**	**(381)**
Total income taxes	**2,105**	**134**	**2,239**
Net earnings	**$ 3,399**	**$ 155**	**$ 3,554**
Earnings per share			
– basic	**0.62**	**0.03**	**0.65**

	Operations	Unusual Items	Total Operations
1997			
Earnings (loss) before tax	$ (629)	$ 2,718	$ 2,089
Income taxes (recovery)			
Current	(262)	3,046	2,784
Deferred	116	(1,591)	(1,475)
Total income taxes	(146)	1,455	1,309
Net earnings (loss)	$ (483)	$ 1,263	$ 780
Earnings per share			
– basic	(0.09)	0.23	0.14

2. Investment in Listed Securities

	1998	1997
Crestar Energy Inc.	$ 6,765	$ 7,672
Other	58	58
	$ 6,823	$ 7,730

3. Fixed Assets

	1998			1997
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	$ 11,024	$ –	$ 11,024	$ 11,807
Land improvements	3,091	1,209	1,882	1,924
Buildings	12,737	5,525	7,212	7,924
Refining equipment	46,187	20,098	26,089	27,542
Equipment	31,551	14,465	17,086	17,768
	$ 104,590	$ 41,297	$ 63,293	$ 66,965

4. Goodwill

Goodwill purchased pursuant to an agreement dated April 30, 1996 is calculated by reference to the quantity of fuel sold to specific marketing outlets for the period May 1,1996 to April 30, 2000. The agreement provides for a minimum amount of $760,000 and no upper limit. Goodwill originally estimated at $1,900,000 was revised to $1,500,000 in 1997 and to $1,254,000 in 1998 to reflect the actual experience to date and anticipated market activity at the outlets over the next 22 months. The corresponding long-term obligation has been reduced accordingly. (See Note 6)

Under an agreement dated April 7, 1997 the Company acquired various fuel marketing assets and operations. A portion of the consideration, not to exceed $5,500,000, is contingent on the average level of gross margins exceeding a defined amount in specific market territories for the five years ended April 7, 2002. A number of the acquired outlets were sold January 30, 1998. Part of the consideration was the sale of $475,000 of goodwill plus an amount not to exceed $2,540,000, contingent upon gross margins exceeding a defined level in specific market territories for the five years ended January 31, 2003.

5. Bank Indebtedness

Bank indebtedness is due on demand and bears interest at the bank's prime rate plus 1/8 of one percent per annum. The indebtedness is secured by a general security agreement, accounts receivable, inventories, and demand debentures creating a first or second fixed charge over specific fixed assets and a floating charge upon all other assets.

6. Long-Term Debt

	1998	1997
Bank loans secured by an assignment of accounts receivable, inventories and demand debentures creating a first or second fixed charge over specific fixed assets and floating charge upon all other assets. The loans are repayable in monthly installments of $201,000 plus interest at prime plus 0.25%. Non-permanent repayment of the loans may be accelerated by the Company, resulting in temporary reduction of the monthly installments.	$ 5,000	$ 12,500
Mortgages payable in monthly installments totalling $70,172 including interest. Interest rates vary from 6.0% to 9.5% and prime plus 0.75% to prime plus 0.8% per annum. The mortgages are secured by real properties with a net book value of $6,964,213.	3,795	4,299
Conditional sales contracts and equipment loans payable in monthly installments totalling $52,566 including interest varying from 6.875% to 11.16% per annum and prime plus 0.50% to prime plus 0.75%. The contracts are secured by automotive and computer equipment with a net book value of $1,715,820.	1,297	1,266
Agreement for sale relating to the purchase of goodwill repayable in monthly installments calculated by reference to the quantity of fuel sold to specific service stations during the period May 1, 1996 to April 30, 2000. Payments to commence subsequent to the recovery of a prepayment of $753,148 made under the terms of the agreement. The agreement is unsecured and non-interest bearing (see Note 4).	478	724
Unsecured notes repayable in monthly installments totalling $25,347. The notes are discounted at 6% per annum	1,234	1,461
	11,804	20,250
Less current portion	1,351	5,695
	$ 10,453	$ 14,555

Estimated principal repayments for the next five years are:

1999	*$ 1,351*
2000	*1,073*
2001	*1,734*
2002	*2,069*
2003	*1,858*

For 1997 and 1998, the Company did not incur net interest expense on working capital borrowings, as average monthly cash balances exceeded average borrowings.

The Company has outstanding letters of credit totalling $5,424,300 (1997 - $2,655,000) which mature at various dates between August 31, 1998 and June 30, 1999.

7. Capital Stock

Authorized

Unlimited number of common shares without nominal or par value. Unlimited number of preferred, non-convertible, non-voting shares without nominal or par value. The designation, rights restrictions, conditions and limitations to be determined by the Directors of the Corporation.

Issued - Common Shares

	1998		**1997**	
	Shares	*Amount*	*Shares*	*Amount*
Balance, beginning of year	**5,436,288**	**$ 16,955**	5,548,788	$ 17,766
Repurchased pursuant to normal course issuer bid	**(4,200)**	**(30)**	(112,500)	(811)
Issued pursuant to exercise of employee share options	**16,000**	**92**	–	–
Balance, end of year	**5,448,088**	**$ 17,017**	5,436,288	$ 16,955

As of June 30, 1998, 239,000 common shares of the Company were reserved for issue on exercise of employee stock options at prices of $5.75 to $7.87 for terms of seven years ending between May 4, 2000 to March 1, 2004.

8. Income Taxes

Income tax expense varies from the amounts that would be computed by applying the Canadian Federal and Provincial income tax rates to earnings before provision for income taxes as shown in the following table:

	1998		1997	
	Amount of	%	Amount of	%
Provision for income taxes at statutory rates	**$ 2,585**	**44.62**	$ 932	44.62
Add (deduct) the tax effect of:				
Processing rate adjustment	**(446)**	**(7.70)**	44	2.12
Large Corporation Tax/Capital Taxes	**43**	**0.75**	80	3.81
Recovery of deferred taxes at average accumulated rate	**126**	**2.17**	209	10.03
Non-taxable portion of gain on sale of listed securities, goodwill and fixed assets	**(215)**	**(3.72)**	(58)	(2.81)
Non-allowable amortization	**148**	**2.55**	91	4.36
Non-deductible expenses	**1**	**0.03**	13	0.63
Other	**(3)**	**(0.05)**	(2)	(0.12)
	$ 2,239	**38.65**	$ 1,309	62.64

9. Operating Leases

The Company is committed to total minimum rentals in the amount of $3,445,281 under operating leases for land and buildings and equipment. Minimum lease payments for each of the five succeeding years are as follows:

1999	$ 1,178
2000	957
2001	714
2002	379
2003	177

10. Payments to Governments

	1998	1997
Provincial fuel taxes	$ 59,421	$ 53,152
Federal excise tax	55,811	49,983
Income tax, large corporation tax, capital tax	2,622	2,784
Property and other taxes	902	888
Payroll tax	384	349
Goods and Services Tax, net of Goods and Services Tax on purchases	9,450	8,185
	$ 128,590	$ 115,341

11. Financial Instruments

The fair value of accounts receivable, bank indebtedness, accounts payable and income taxes payable are equal to their carrying values due to their short-term maturities. The fair value of long-term bank loans equal their carrying values as their interest rates fluctuate with the prime lending rate. The Company may elect to utilize interest rate swaps and make non-permanent repayment of the loans. The carrying values and fair values of investments in listed securities, conditional sales contracts, mortgages payable, agreements for sale and unsecured notes payable are as follows:

	1998		1997	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Investment in listed securities	$ 6,823	$ 6,659	$ 7,730	$ 10,995
Mortgages payable	3,795	3,880	4,299	4,442
Conditional sales contracts	1,297	1,286	1,266	1,291
Notes payable	1,234	1,208	1,461	1,501
Agreement for sale	478	446	724	671

Fair value of listed securities are based upon quoted market prices as at June 30, 1998. Management believes Crestar Energy Inc. has sufficient resources to withstand the volatility of world oil prices which are a primary determinant in the fair value if its securities and the cyclical nature of world oil prices will ultimately result in the restoration of fair value of the securities and in Parkland having the opportunity to realize their carrying value. Fair values of long-term debt are estimated using discounted cash flow analysis based upon incremental borrowing rates for similar borrowing arrangements.

The Company does not have a significant exposure to any individual customer. The Company reviews a new customer's credit history before extending credit and conducts regular reviews of its existing customers credit performance.

Five Year Review

YEARS ENDED JUNE 30 (THOUSANDS OF DOLLARS, EXCEPT PER SHARE INFORMATION)	1998	1997	1996	1995	1994
Net sales and operating revenues	$ 255,374	$ 233,280	$ 188,036	$ 153,270	$ 126,238
Cost of operations	217,893	205,220	161,769	124,545	103,690
General and administrative expenses	31,977	28,689	23,104	22,433	17,544
Earnings (loss) before income taxes from continuing operations	5,504	(629)	3,163	6,292	5,004
Income taxes	2,239	1,309	3,182	2,510	2,128
Equity in earnings of investments	–	–	72	161	254
Unusual items and discontinued operations	289	2,718	4,009	(274)	51
Net earnings	3,554	780	4,062	3,669	3,181
Total assets	95,561	104,252	101,399	96,519	92,848
Working capital (deficit)	(4,228)	(8,986)	(5,377)	3,419	695
Long-term debt (less current portion)	10,453	14,555	17,168	23,033	26,674
Deferred income taxes	8,821	9,012	8,896	9,805	7,873
Shareholders' equity	50,890	47,817	48,397	44,776	41,942
Common shares outstanding used in per share calculations	5,439,635	5,473,725	5,530,420	5,530,430	5,523,763

Per Share Information

	1998	1997	1996	1995	1994
Net sales and operating revenue	$ 46.95	$ 42.62	$ 34.00	$ 27.72	$ 22.85
Earnings (loss) from operations and investments	0.62	(0.09)	0.30	0.71	0.59
Net earnings	0.65	0.14	0.73	0.66	0.58
Cash from operations and investments	1.78	0.78	0.89	2.00	1.83
Total assets	17.57	19.05	18.34	17.45	16.81
Shareholders' equity	9.36	8.74	8.75	8.10	7.59
Net capital expenditures	0.33	2.46	1.49	1.02	0.76

Statistical Analysis

	1998	1997	1996	1995	1994
Return on shareholders' equity (before extraordinary and unusual items and discontinued operations)	6.9%	(1.0%)	3.6%	9.1%	8.0%
Return on total investment (before extraordinary and unusual items and discontinued operations)	5.3%	0.5%	3.5%	6.8%	6.1%
Price range of shares – calendar year					
High	$ 8.40	$ 8.00	$ 8.20	$ 8.25	$ 9.38
Low	$ 6.50	$ 6.25	$ 7.35	$ 6.75	$ 7.13

Corporate Information

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tel (403) 357-6400
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Annual General Meeting

Thursday, November 12, 1998
at 4:00 p.m. Black Knight Inn
2929 - 50th Avenue
Red Deer, Alberta

Bankers

Canadian Imperial Bank of Commerce
10th Floor, Bankers Hall
855 - 2nd Street SW
Calgary, Alberta T2P 2P2

4902 - 50th Street
Red Deer, Alberta T4N 1X7

Auditors

Heywood Holmes & Partners
Chartered Accountants
500, 4911 - 51st Street
Red Deer, Alberta T4N 6V4

Legal Counsel

Chapman Riebeek
208, 4808 - 50th Street
Red Deer, Alberta T4N 1X5

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Toronto Stock Exchange
The Alberta Stock Exchange
Trading symbol PKI

Registrar and Transfer Agent

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Chairman
Danoil Energy Ltd.
Calgary, Alberta

Thomas H. Chapman
Counsel
Chapman Riebeek
Red Deer, Alberta

Jack C. Donald *
President and Chief Executive Officer
Parkland Industries Ltd.
Red Deer, Alberta

Joan M. Donald
Assistant Corporate Secretary
Parkland Industries Ltd.
Red Deer, Alberta

Terry D. Lawrence *
President
Sheer Energy Inc.
Calgary, Alberta

S. Donald Moore
President and Manager
Phoenix Canada Oil Company Limited
Toronto, Ontario

Alfio L. Truant *
President
Red Deer Bottling Co. Ltd.
Red Deer, Alberta

** Member of the Audit Committee*

Officers

Jack. C. Donald
President and Chief Executive Officer

Thomas H. Chapman
Secretary

Joan M. Donald
Assistant Corporate Secretary

John G. Schroeder
Vice President, Finance

Kelly G. Collier
Controller

S. Michael Meeres
Treasurer

Wholly-Owned Subsidiaries

Fas Gas Oil Ltd.
Service Station Operations
D. Jim Jones, Vice President, Marketing

Payless Oil Company Ltd.
Gasoline and Diesel Fuel Marketing
Bradley Williams, General Manager

Mr. Petro Oil Company Ltd.
Gasoline and Diesel Fuel Marketing
Bradley Williams, General Manager

Great Northern Oil Inc.
Gasoline and Diesel Fuel Marketing
D. Jim Jones, Vice President, Marketing

Gasex Propane Plus Ltd.
Retail Propane Sales
D. Jim Jones, Vice President, Marketing

Parkland Refining Ltd.
Petroleum Refining
Bob Leflar, General Manager

Fas Gas Realty Ltd.
Real Estate Holdings and Development
D. Jim Jones, Vice President, Marketing

Petrohaul Ltd.
Petroleum Transportation
Don Heisler, General Manager

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